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SUBJECT: MERMOUD IN ANKARA: INVESTMENT, TELECOM, NUKES

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This message was coordinated with Consulate Istanbul.

11. (SBU) Summary. In October 21 Ankara meetings, Special Representative for Commercial and Business Affairs Frank Mermoud found improvements and opportunities in Turkey's telecom, energy, and other investment sectors. Turkey has made significant progress on improving its investment environment and taking steps to increase FDI, but deficiencies in legislative and regulatory environment still remain. In the short-term, the electricity distribution privatization is the strongest energy investment opportunity. Longer-term, nuclear investment is an opportunity for U.S. technology. End Summary.

INVESTMENT CLIMATE: GOOD NEWS - BUT SILL PROBLEMS

12. (SBU) Treasury Deputy Under Secretary Cavit Dagdas emphasized that GOT had liberalized Turkey's FDI law, eliminating red tape and providing for notification -- rather than permitting -- for FDI. Moreover, Dagdas stressed the promotion efforts of the CEO-level "Investor Advisory Council" and the working level "Coordination Council for Implementation of Investment Climate." Noting the helpful anchor of the EU, Dagdas admitted that there was still a lot of work to do, citing in particular IPR. He insisted that new legislation had improved the IPR situation, but noted that there were "transitional problems" with pharmaceutical data exclusivity, for example. In the same meeting, DDG Murat Alici described a new initiative to focus on SME's for FDI in Turkey. In response, Mermoud agreed that Turkey had made important progress and settled some lingering disputes. When Mermoud raised the issue of discriminatory (luxury) taxes on cola drinks, Dagdas replied that Treasury was under fiscal pressures and that changing the tax was not on the agenda for 2006.

PRIVATIZATION TRACK RECORD

13. (SBU) Privatization Administration (PA) President Metin Kilci described the recent privatization success stories: Turk Telekom, TUPRAS, and Erdemir. These would bring \$1.3 billion to the Treasury this year -- and a total of \$18 billion over a period of years. Kilci was optimistic that the privatization of Turk Telekom (TT) would take place despite court challenges and be closed before the end of 2005. He said that the high administrative court (Danistay) was only able to offer an opinion, but not block, the TT concession agreement. In response to Mermoud's concern that the price may have been bid too high, Kilci said that the liberalized telecom market had generated the high asset price (\$12 billion market capitalization). He was bullish on the upcoming privatization targets, including electricity distribution (see para 7 below), port operations, and the sugar companies, noting that the PA was collecting potential investor input.

TOBB ACTIVE ON MIDDLE EAST

14. (SBU) Rifat Hisarciklioglu, the chairman of the leading Turkish business federation, TOBB, said he was disappointed there was not more U.S. FDI in Turkey, but was optimistic for the future. Mermoud encouraged TOBB, as the leading business organization, to urge greater GOT engagement on bringing U.S. FDI. TOBB could play an important role since its members include not just the leading companies but many of smaller companies, which offer supply chain and other opportunities. Hisarciklioglu described TOBB's new Israeli-Palestinian

"Ankara Forum" initiative, which targets facilitation of an industrial zone in Gaza, and appreciated USAID support. He hoped that OPIC and the World Bank's MIGA would be able to provide investment guarantees for projects in the zone, and also asked for clarification if products from the zone would have preferential access to the U.S. under the U.S.-Israel FTA. Mermoud briefed on the state of play on BMENA business initiatives, highlighting the business forum being organized at the upcoming World Summit on Information Society.

15. (SBU) Mermoud mentioned that Turkey's EU accession process will help encourage reforms in areas that have typically created issues for investors. For the EU accession process, Hisarciklioğlu's TOBB colleagues described how TOBB is organizing itself into 27 working groups to provide position papers to GOT officials negotiating individual chapters of EU acquis. TOBB's think-tank, TEPAV/EPRI, will also conduct impact assessment studies on Turkey's adoption of the chapters. The TOBB President

TELECOM AUTHORITY INTERESTED IN U.S. VISIT

16. (SBU) In a brief meeting, Turkish Telecom Authority chairman Tayfun Acarer voiced interest in learning from the FCC's expertise, particularly as the Authority looked at regulation of 3G, WIMAX, and other new technologies (refs). Acarer also described his objective of continuing to improve the competition and investment environments in Turkey's telecom sector. Vice Chairman of the Authority, Galip Zerey, told Mermoud that he planned to attend the World Summit on the Information Society in Tunis November 18. Acarer expressed an interest in visiting the FCC. Comment: Post would strongly support an invitation by the FCC to Acarer. End Comment.

NUCLEAR DREAMS

17. (SBU) Mermoud pressed Energy Under Secretary Sami Demirebilek on the GOT's process for moving forward on its announced goal to put in place three nuclear power plants. Demirebilek stressed that under the current Energy Market Law, the private sector, not the government, must carry out energy investments. He said the Energy Ministry was studying regulations for licensing and monitoring, but at this time there would not be a formal tendering. Rather, Demirebilek said the GOT would welcome proposals from private companies on technology and tender requirements, stressing that "anything can happen." Elaborating on the government's "facilitating role," he said the GOT had not yet made a decision on whether to change existing legislation. Responding to Mermoud's observation that the GOT had experienced two previous failures in aiming for nuclear power, Demirebilek said the GOT was now serious. This was not a one-off luxury item; rather, it was part of a GOT decision to achieve balance in the energy portfolio.

DISTRIBUTING THE ELECTRICITY

18. (SBU) All of Mermoud's interlocutors (in particular the Energy Under Secretary and Privatization Administration President Metin Kilci) stressed the importance of and the imminence of the electricity distribution (TEDAS) privatization. Kilci said that they expected the Parliament to move quickly on an amendment which would put in place necessary changes in the regulatory framework (price structure during the five-year transition to free market, for example). He expected the tender to be launched by the end of the year, starting with 2-3 larger regions, out of an initial batch of 6 regions to be tendered. Kilci said that there was no specific requirement for foreign and domestic participation. Responding to EconCouns' point that investor input was critical to the process, Kilci stressed that extensive consultations with potential investors had been carried out.

EMBASSY COMMENT

19. (SBU) A theme of Mermoud's meetings, both here and in Istanbul, was that Turkey has made progress in improving its investment climate and that investors are responding, although U.S. investors have not been as active as European counterparts. Nevertheless, there remain serious impediments to foreign investment, notably

in the judicial and regulatory realms, where foreign investors can not be confident of being treated on the same basis as local investors.
McEldowney